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ABSTRACT

This executive summary presents highlights of principal findings from a study conducted to provide information about the characteristics of employer-supported child care programs in Appalachia. Findings are reported in brief answers to 10 questions originated in the study design: (1) Where are women employed? (2) Is there a need for child care? (3) What kinds of child care arrangements are used, and what are the ways or options employers have for supporting child care? (4) What is the extent of employer involvement in child care in the United States and in the Appalachian region? (5) What effect does a rural location have on employer involvement in child care? (6) What are the characteristics and experiences of established employer-supported child care programs? (7) What are the characteristics of established child care programs in Appalachia? (8) What are the characteristics of parents and households which are presently making use of Appalachian child care programs, and what are the reasons that employers choose to support or not to support child care? (9) What interest do Appalachian employers have in supporting child care, and what is the nature of that interest? and (10) What incentives are being used to encourage employer involvement? A brief discussion of the study's recommendations are also included. (MP)

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APPALACHIAN REGIONAL COMMISSION EMPLOYER SUPPORTED CHILD CARE STUDY

EXECUTIVE SUMMARY

SUBMITTED TO
APPALACHIAN REGIONAL COMMISSION

SUBMITTED BY
UNIVERSITY RESEARCH CORPORATION

MAY 1982

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ABSTRACT

This study presents information about employer supported child care, evaluates its prospects for further development in Appalachia, and recommends ways the Appalachian Regional Commission can best encourage its development.

A background investigation and four surveys were conducted. The surveys sampled established employer supported programs in the United States, Appalachian child care programs, households with children enrolled in Appalachian child care programs, and Appalachian employers.

Findings are presented which show the extent of employer involvement in child care; the characteristics of established employer supported programs; the characteristics of Appalachian child care programs and their enrolled children's households; the level of interest among Appalachian employers and the factors associated with employer interest.

Recommendations are made to the Appalachian Regional Commission to support the further development of employer involvement in child care in the region with a number of research, training, materials dissemination, demonstration and technical assistance projects.

PREFACE

This executive summary presents highlights of the principal findings from the background investigation and four surveys in brief answers to the study questions. The recommendations are identified but not discussed in full detail.

Copies of this summary or the full text can be obtained from the Appalachian Regional Commission, 1666 Connecticut Avenue, N.W., Washington, D.C.; telephone 202/673-7876.

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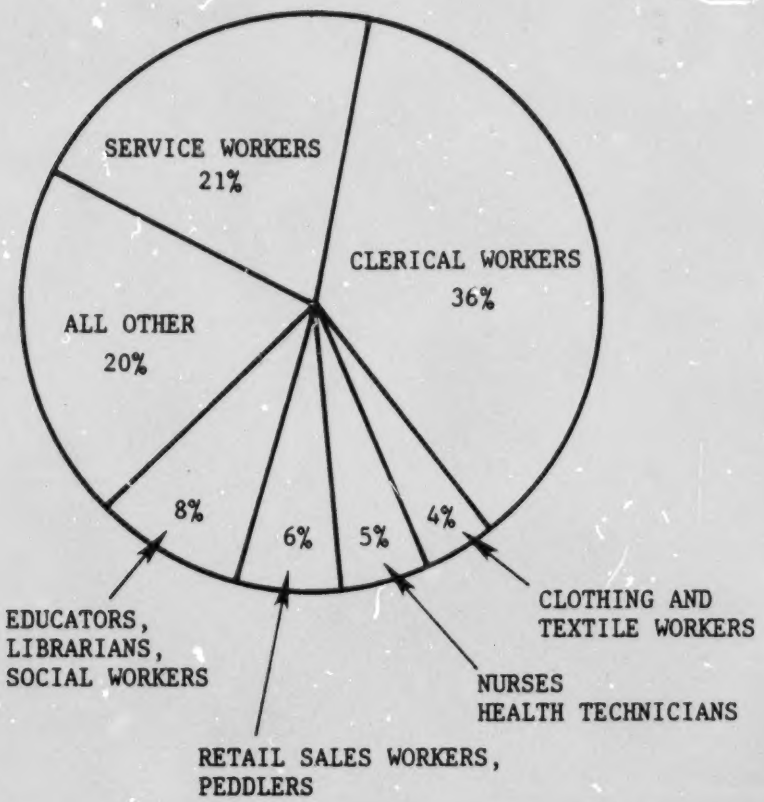
May 1982

WHERE ARE WOMEN EMPLOYED?

Women typically do differenct jobs than men. Figure 1 shows the distribution of the female labor force by occupation and the percentage of women in each class. The trends among younger workers indicate that most women joining the labor force will continue to select these traditionally female occupations.

Figure 1: Occupational Profile of the Female Labor Force, 1977



PERCENTAGE OF WORKER GROUPS THAT ARE FEMALE

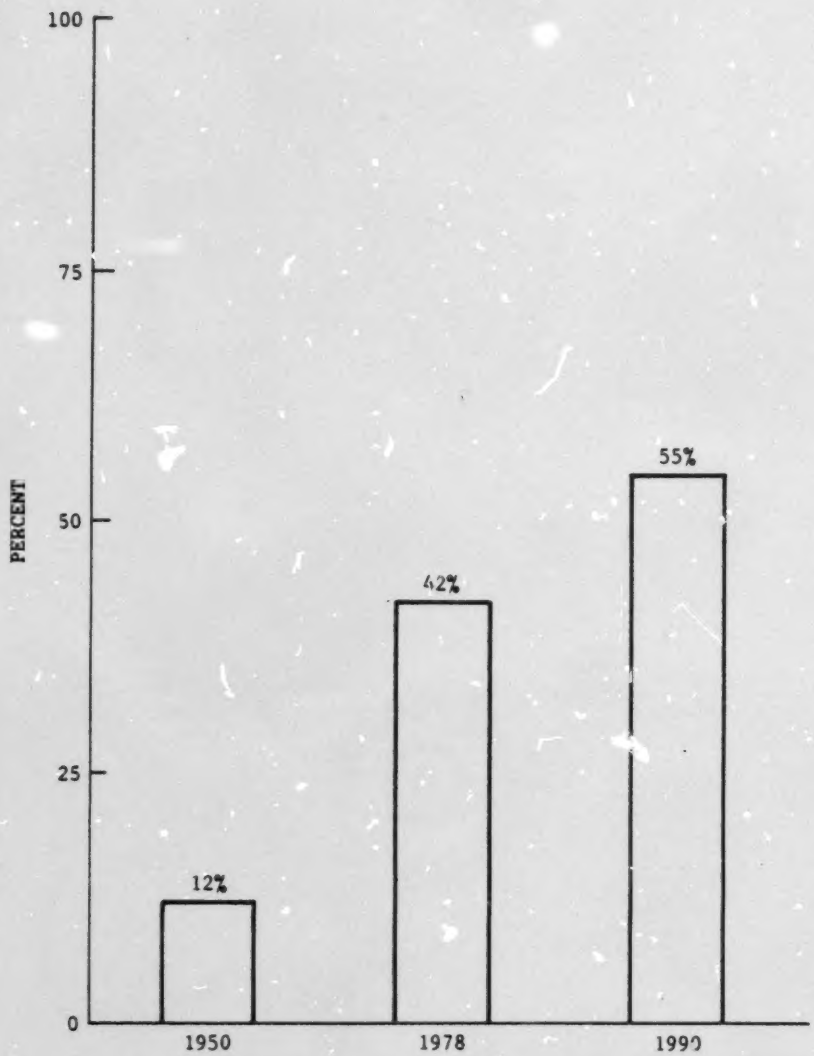
CLERICAL WORKERS	79%	SALES CLERKS, ETC.	67%
SERVICE WORKERS	62%	NURSES, ETC.	83%
EDUCATORS, ETC.	64%	TEXTILE WORKERS, ETC.	76%

Sources: Smith, Ralph E., ed. The Subtle Revolution: Women at Work. Washington, D.C.: The Urban Institute, 1979, and the Bureau of Labor Statistics, 1977.

IS THERE A NEED FOR CHILD CARE?

Some of the most frequently cited and compelling statistics used to claim the need for more child care services are those which show that women in general and mothers with young children in particular have been significantly increasing their participation in the labor force and are expected to continue to do so in the future. Figure 2 illustrates this trend which is dramatized by a corollary projection showing that nearly half of all children under six will have working mothers by 1990.

Figure 2: Labor Force Participation Rates for Mothers With Children Under Six in Families Where the Husband is Present



Source: Smith, Ralph E., 1979.

WHAT KINDS OF CHILD CARE ARRANGEMENTS ARE USED?

The choices parents face for child care, if they are fortunate enough to have a choice, can be classified into four categories:

- Parental care
- Care by nonrelativies in their own or other homes
- Care by relatives in their own or other homes
- Other formal arrangements including family day care homes, day care centers, and preschools.

Parents are still the primary providers of care for their own children in their own homes, at least until the children reach school age. In most cases, the mother stays home with the children while the father goes to work. Many parents, however, look to relatives and nonrelatives to provide care in their own homes and outside their homes.

Current trends show that the traditional forms of care are changing as increasing numbers of women enter the workforce and as parents look for improved educational opportunities for their children. Many parents today view the child care experience as an opportunity for the child to learn and become better prepared for school.

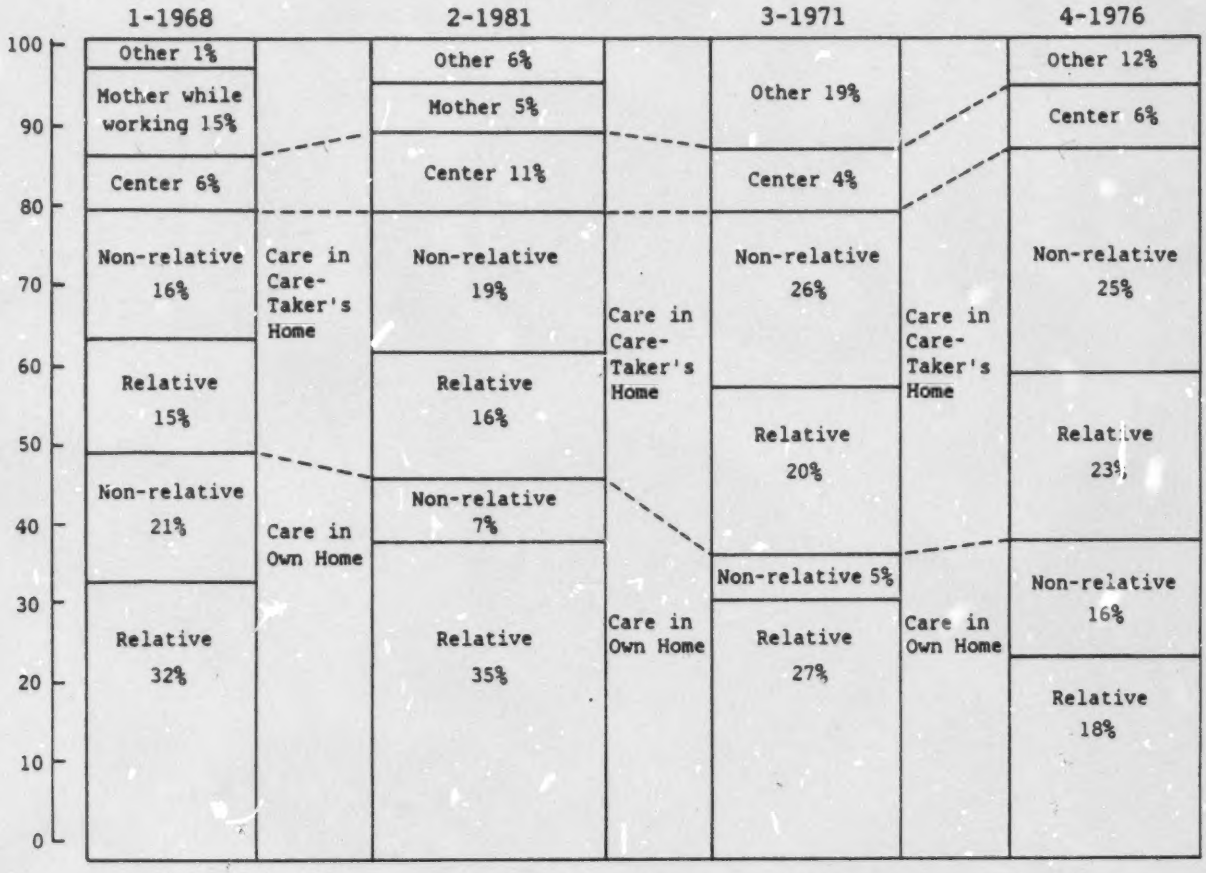
The most common forms of formal care outside the home are family day care homes, day care centers, and preschools. Family day care homes usually have an adult caretaker attending to less than six and an average of two children in the home. Usually the adult is also caring for her own children. Day care centers are larger, licensed, and more formally organized. They usually care for a minimum of 12 children ranging in age from 3 months to 13 years. The ages of most of the children are between 3 and 5 years. Preschools are generally operated on a part day or part week basis and do not serve the needs of full time working parents. They nearly always care for children ages 3 to 5 and are geared to educational enrichment.

The factors that seem to affect or limit the parents' choices regarding child care include cost, location, convenience of hours, the caregiver's background, and the educational content of the care provided. Cost, location, and schedule are the predominant factors. Two observations showing their relevance are:

- Working women consistently spend between one-fifth and one-sixth of their earnings on child care.
- Roughly two-thirds of parents who take their children to a day care facility report a travel time of less than 10 minutes.

Figure 3 shows a comparison of the types of child care arrangements made by parents as reported in four surveys.

Figure 3: Types of Child Care Arrangements Used by Working Mothers As Reported by Four Surveys



NOTES:

- Source: Adapted from comparison presented in New Management Initiatives for Working Parents, 1981.
- Working Mothers: Survey 1: All working mothers with children under six. Survey 2: All working mothers with children under six and with family incomes less than $8,000. Survey 3: Working mothers aged 14 to 24 years Survey 4: Working mothers with children under 14.
- Surveys: Survey 1: Low and Spindler, 1968. Survey 2: Westinghouse Learning Corp., 1981. Survey 3: Shea et. al., 1971. Survey 4: Unco Inc., 1976.

WHAT ARE THE WAYS OR OPTIONS EMPLOYERS HAVE FOR SUPPORTING CHILD CARE?

Three basic characteristics of employer involvement were identified: 1) the type of program or child care service; 2) the type of support; and 3) the type of employer participation. Each feature was classified as follows:

o PROGRAM OR SERVICE TYPE

Information Services: Includes information and referral services, counseling services, parent education, materials distribution, and needs assessments.

Day Care Centers: Licensed programs where child care is provided for a group of children away from their homes in a established setting. Centers were further classified by location including work-site, or on-site, near-site, and off-site centers.

Family Day Care Homes: Licensed programs where child care is provided in a home setting.

Partial Programs: These include an assortment of programs of a part-time or temporary nature such as after-school programs; summer vacation or camp programs; child illness and emergency programs; and school holiday and snow day programs.

o SUPPORT TYPE

Sponsorship: This is where the employer directly operates or assumes general responsibility for the child care service. It implies a greater degree of administrative and financial commitment by the employer.

Financial Support: This is where the employer does not "sponsor" or operate the program but provides financial support to an independently operated child care program. Such support could include donated goods and services; loans and loan guarantees; enrollment subsidies for employees through prepaid purchases of service or through reimbursed vouchers; flexible benefits; and alternate work scheduling policies such as part-time employment, job sharing, flextime and flexplace or work at home.

o PARTICIPATION TYPE

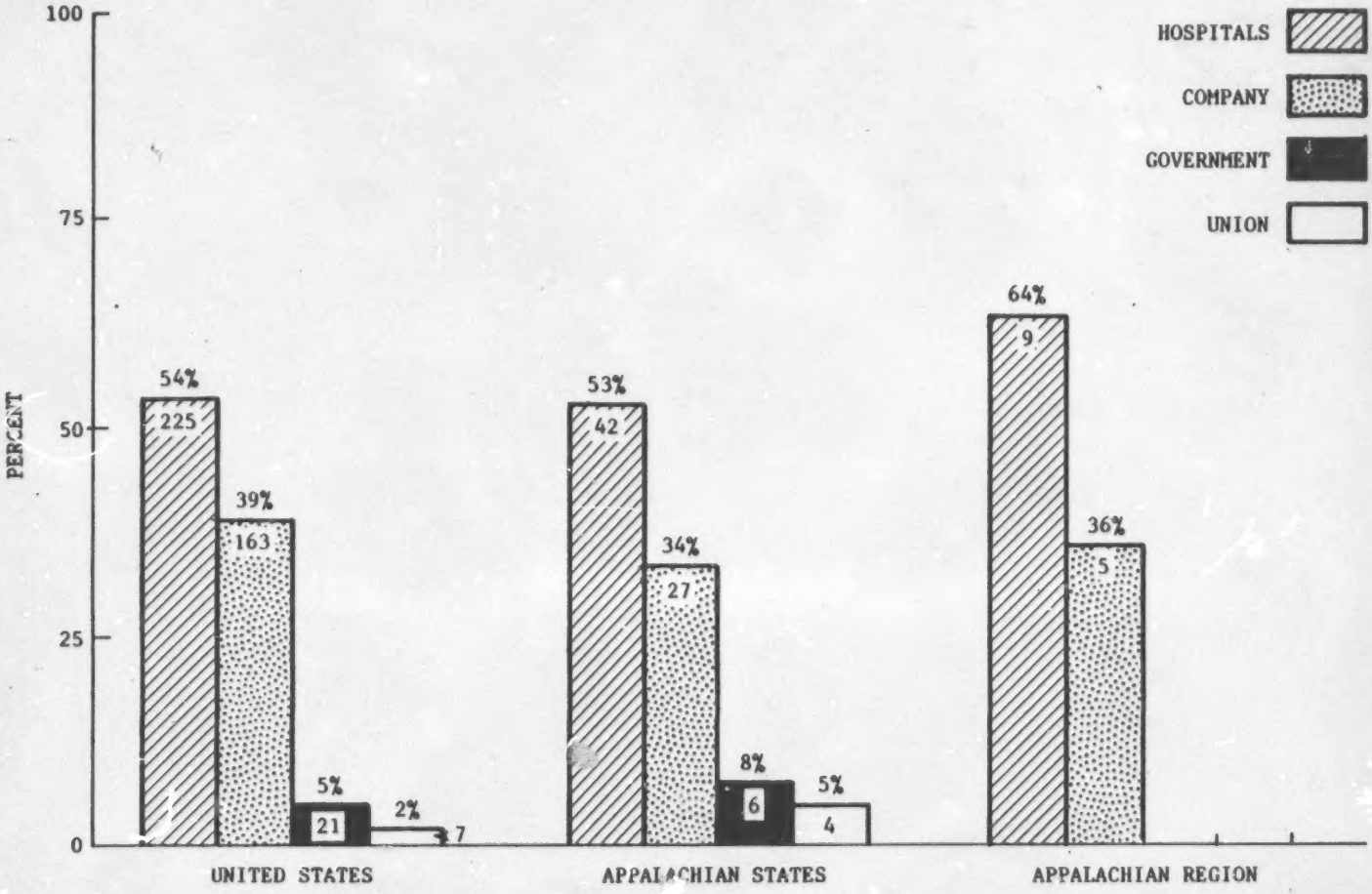
This is a simple distinction as to whether employers support child care individually or together with other employers. Group participation is commonly referred to as a consortium.

A large variety of employer options have been constructed from various combinations of these features.

WHAT IS THE EXTENT OF EMPLOYER INVOLVEMENT IN CHILD CARE IN THE U.S. AND IN THE APPALACHIAN REGION?

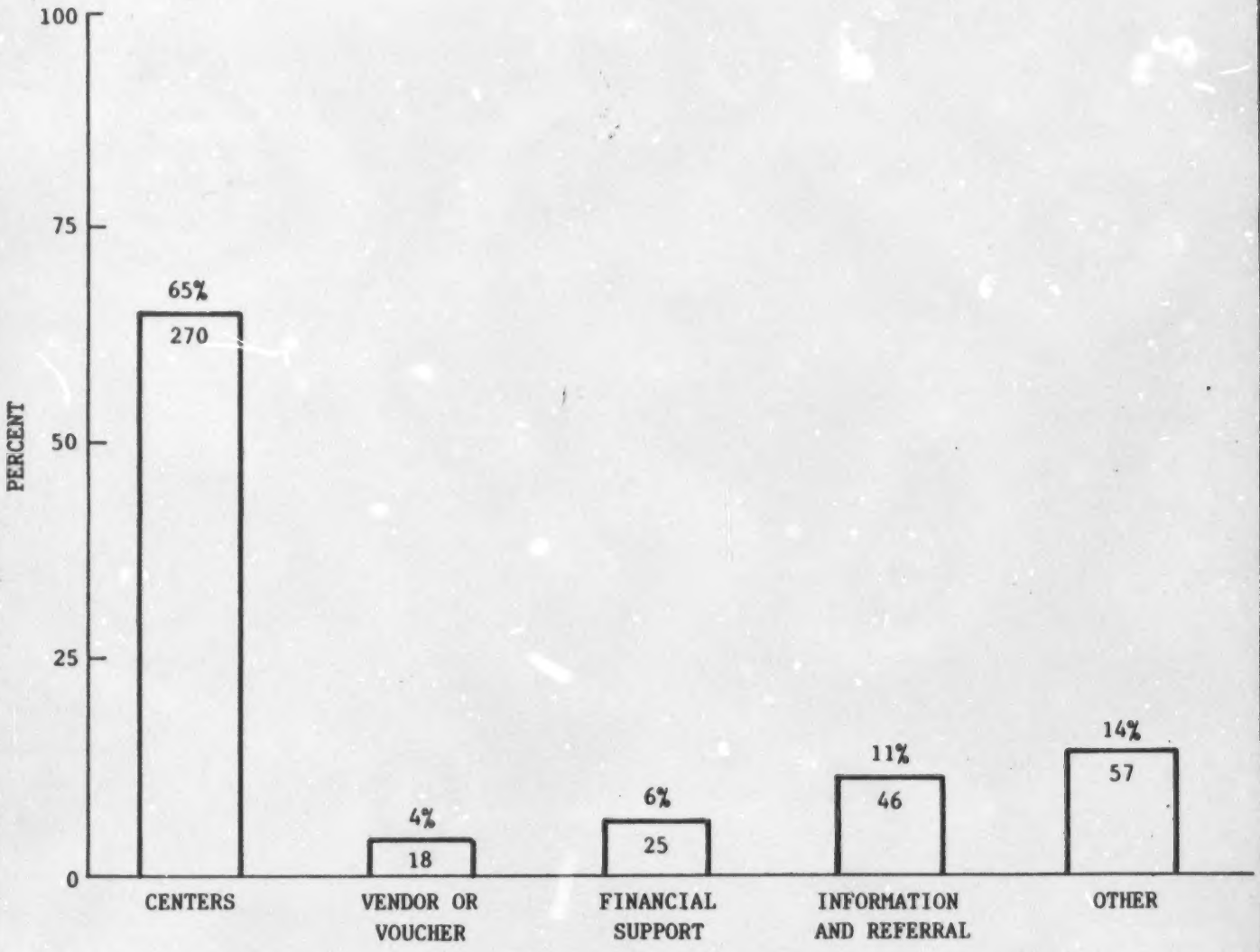
The extent of employer involvement is unknown and can only be estimated. The most current estimate of the number of programs is shown in Figure 4. According to this estimate there are 416 programs nationally. Hospitals are the principal employer type involved. Figure 5 shows the types of programs being supported. Most or 65 percent of the established programs are day care centers.

Figure 4: Estimated Number and Percent Distribution of Employer Supported Child Care Programs by Type of Employer



NOTE: Program model types include on-site or near-site day care centers, family day care, vendor and voucher, information and referral, direct and in-kind financial support, and parenting programs. Principal source of information is the Child Care Information Services, Inc., April 1982.

Figure 5: Estimated Number and Percent Distribution of Employer Supported Programs by Type in the United States



Source: Child Care Information Services, Inc., April 1982.

WHAT EFFECT DOES A RURAL LOCATION HAVE ON EMPLOYER INVOLVEMENT IN CHILD CARE?

The effect a rural location will have on employer involvement is unknown. The findings show, however, that the extent of involvement by employers from rural areas is extremely limited.

Twenty of 79 employer programs in the Appalachian states were found to be located in communities with a population of less than 10,000. Further analysis revealed that only 5 of these were located outside Standard Metropolitan Statistical Areas (SMSA's). One of these programs has recently closed and two are actually proprietary services working in space provided by one employer. So overall only 3 programs or 4 percent of the total in the Appalachian states are operating in truly rural communities. In the Appalachian region over 25 percent of the population live in rural counties and over 45 percent live in communities of less than 1,000 people. This suggests that a rural location is somehow negatively associated with employer involvement. The findings from the survey of Appalachian employers support this suggestion.

WHAT ARE THE CHARACTERISTICS AND EXPERIENCES OF ESTABLISHED EMPLOYER SUPPORTED CHILD CARE PROGRAMS?

The national survey of 25 employer supported programs focused primarily on day care centers although two information and referral programs and one voucher program were surveyed. Some highlights of the findings are presented here.

- There seem to be very few rural programs. Of five programs surveyed which were located in communities of less than 10,000 people only two were outside a Standard Metropolitan Statistical Area (SMSA).
- The majority, 60 percent, of the programs surveyed were located in urban areas or areas with populations of 50,000 or more.
- Hospitals appear to be more likely to sponsor or directly operate programs rather than provide support to independently run services. Eleven of 12 hospital programs surveyed sponsored or assumed general responsibility for the program.
- The consoritum programs were primarily located in the larger metropolitan areas.
- Retail and wholesale employers appear to be less involved than other basic employer types. Of 25 employers in the sample there were no examples of retail or wholesale employer programs.
- Information and referral programs can easily be combined with more substantial employer support for programs. Of the two I&R programs surveyed both were operated in combination with employer supported day care.
- The work-site centers are primarily sponsored or operated by the employer. Thirteen of 16 on-site centers surveyed were operated by the employer.
- All programs served toddlers, ages 2 to 3; all but one served preschoolers, ages 3 to 5; three-quarters served infants and 44 percent served schoolaged children.
- Hospital programs appear more likely to serve infants than do programs supported by other employer types. Eighty-three percent of the hospitals served infants compared to 76 percent for the total sample.
- The average budgeted cost per child for the center programs was $2,840 per year per child.
- The average weekly toddler fee was $38 for the center programs.
- Most centers charge on a weekly basis and nearly half charged a single amount without regard to the age of the child. Nearly all charge fees set below actual cost.

- Most programs, 80 percent, which were sponsored or operated directly by the employer were run exclusively for employees.

- All of the center programs were supported by employers with more than 500 employees.

- Only 4 of the 25 programs attempted to recover total costs from fees.

- The more heavily subsidized programs or programs with the lowest fees appear to have waiting lists and little problem with underenrollment.

- Cost was the most frequently cited operating problem.

WHAT ARE THE CHARACTERISTICS OF ESTABLISHED CHILD CARE PROGRAMS IN APPALACHIA?

A survey of 33 Appalachian child care programs was conducted to provide a current descriptive base for this project. Some of the findings are summarized here.

- Infant care may be in short supply. Only 40 percent or 11 of 29 center programs surveyed were servicing infants. A few of the program directors reported a need for infant care in their communities.

- Day care services appear to be generally available in the communities surveyed with the possible exception of infant care and care after normal working hours. The median utilization rate for the programs surveyed was .89.

- The for profit and family day care programs were totally dependent upon fee income. The private nonprofit programs were primarily dependent upon fee income but usually were supported by a local parent organization. The nonprofit programs receiving federal support were heavily dependent upon public funds.

- Only 3 of the 33 programs surveyed reported receiving any financial support from local employers. Two of these involved periodic contributions which were usually for special projects. One involved a $25 weekly child care allowance for employees not eligible for Title XX government support.

- The amount of the fees charged does not appear related to the source of the day care center funding. The median fee for each of the classes of centers was $35 as compared to $27 for the family day care programs.

- Forty percent of the center directors reported funding as their major problem. The for profit centers are less concerned about funding than the others.

- Although a few programs have attempted to get support from local employers there generally appears to be little creative initiative in this area. Two for-profit centers did not want employer support, but there was a high level of interest in learning about what could be done among the other program directors.

WHAT ARE THE CHARACTERISTICS OF THE PARENTS AND HOUSEHOLDS WHICH ARE NOW USING APPALACHIAN CHILD CARE PROGRAMS?

A survey of the parents or the two principal providers living with children enrolled in 22 Appalachia child care centers was conducted. Four hundred fifty-one households were included in the sample. Some of the more relevant observations and findings are summarized below:

- Two basic types of families with children in Appalachian day care centers were identified: 1) the two wage earner family with one to two children, one of them in a full-time child care program, with a family income of $30,000 or above, and 2) the single parent family with an annual income of less than $10,000.

- Forty-nine percent of the respondents identified another principal wage earner who helps support the child.

- Over one-third of the wage earners work for service organizations and over one-quarter work for manufacturers.

- Over one-third of the wage earners work for employers with more than 200 employees.

- Sixty percent reported employment as the primary reason for enrolling their child in the day care center while 32 percent said it was better for the child.

- The average family had previously used 1.9 different child care arrangements.

- Preferences for the location of the center near home or work were equally divided.

- Two-thirds of the respondents were very satisfied with the quality of care, building and play area, activities, travel distance and schedule. Over half were satisfied with the cost. Negative ratings were below 3 percent and not one person rated the quality of care negatively.

- The survey was unable to characterize a "typical" household or family who uses center-based care although specific programs may tend to serve a more homogeneous group.

WHAT ARE THE REASONS WHY EMPLOYERS CHOOSE TO SUPPORT OR NOT SUPPORT CHILD CARE?

One of the first considerations is the employer's perception of need. One of the factors affecting this perception is the proportion of women employed. The findings from the survey of Appalachian employers clearly shows that those with fewer than 25 percent female employees have little interest in child care. The findings also show that of those undertaking one of the most substantial options, the sponsorship of a day care center, none employed fewer than 25 percent women and most, 77 percent, have a workforce which is over half female.

Other factors may influence the perception of need such as demands or problems expressed by employees, the availability of child care locally, the provision of child care service by competitors in a tight recruiting market, and any number of personnel or other operating problems such as employee recruitment, job turnover, absenteeism, tardiness, morale, quality control and productivity.

The findings from the survey of employer supported programs identified a wide variety of reasons why programs were begun. Of the 25 programs surveyed management was responsible for initiating more than half. The employees or unions started one-quarter and the others were begun by combinations of staff and management or by local child care providers. In those cases where management started the program they were often responding to a collection of requests or problems cited by individual employees rather than an organized request or demand made by a group of employees. In each case there was a set of fairly individual reasons why management felt a program was needed. The most common reason was some expression of need by current, prospective, departing and troubled employees.

The employer's perception of the potential benefits of a child care service is an important consideration but may not be the most significant reason for starting or keeping a program. The literature clearly shows that most employers now supporting child care programs feel it helps with problems of absenteeism, turnover, tardiness, morale, recruitment, and productivity. However, the perception of benefits seems to be nearly as high among all employers. The survey of Appalachian employers found that the perception of potential benefits to be nearly as high among all employers as it was for the thirteen Appalachian employers surveyed which were sponsoring child care centers. Perry found that even among those employers who had closed child care centers, half felt the program improved turnover and over four-fifths felt it helped recruitment. This suggests that the general perception of potential benefits is largely favorable and that other more significant factors are prohibiting employers from starting programs.

Cost and cost benefit considerations seem to be the most important factors influencing employers or prohibiting them from staring a program. The Perry survey shows that cost and its related problems is the main reason why centers which open subsequently closed. Cost and its related problems was the main operating problem cited by the 25 employer programs surveyed. Although cost was not specifically addressed in the Appalachian employer survey, the Santa Cruz survey found it to be the obstacle most often cited by employers. The

level of current involvement and interest among the Appalachian employers appears to be directly related to the cost of the benefit.

The survey of Appalachian employers suggests that certain employer characteristics are associated with increased involvement and interest in child care. Characteristics such as employer size, status in community, employer type, community size, and proportion of female employees all seem to be associated with employer involvement and interest. These factors and others not studied probably influence the individual employer's perception of the need, feasibility, cost and cost benefit of child care assistance.

WHAT INTEREST DO APPALACHIAN EMPLOYERS HAVE IN SUPPORTING CHILD CARE, AND WHAT IS THE NATURE OF THAT INTEREST?

Eight surveys of employers each of which dealt to some extent with this question were reviewed in the background investigation. In addition, a representative survey of 288 Appalachian employers was conducted which assessed their knowledge, involvement and interest in child care.

The principal finding or suggestion arising from the review of other employer surveys was that employer interest appears to decline rapidly as the options take on the character of the direct sponsorship of a specific child care or day care service and as the options become more expensive. That suggestion was confirmed by the survey of Appalachian employers. Figure 6 presents the status of Appalachian employer involvement and interest in child care.

The Appalachian employers have a high level of interest for the less costly options. Roughly two-thirds of the respondents were interested in or would consider conducting surveys of their community's and employees' need for child care and would consider supporting an information and referral service.

The level of interest in the more substantial options such as providing financial support to a community program, enrollment subsidies, and the sponsorship of a center was less than the others, but was not insignificant. The level of interest in these options ranged from 22 to 32 percent.

One difference between the previous surveys and the Appalachian survey concerned the level of interest in flexible benefit plans. The other surveys reported a high level of interest in this option which reached two-thirds in two of the surveys. Only one-third of the Appalachian employers expressed an interest in this approach.

The characteristics associated with employer involvement and interest were examined. The factors of employer type, employer size, size of community, proportion of female employees, and local community status all appear to be associated with employer interest. Figure 7 summarizes the relative importance of four of these characteristics. The most important factor seems to be the proportion of female employees. Those employing fewer than 25 percent women are much less interested than any other class. Retail and wholesale employers were also found to be significantly less interested than any other class except those with fewer than 25 percent women. The characteristics of the employers showing the greatest degree of interest are the service employers employing more than 50 percent women, and more than 500 employees who rate themselves as major employers in their local communities.

The survey found a relatively low level of understanding about employer supported child care and a high level of interest in learning more. Half to two-thirds expressed an interest in learning more about each of five topics identified. Half said they would attend a local conference about employer supported child care.

Figure 6: Status of Employer Involvement and Interest in Child Care

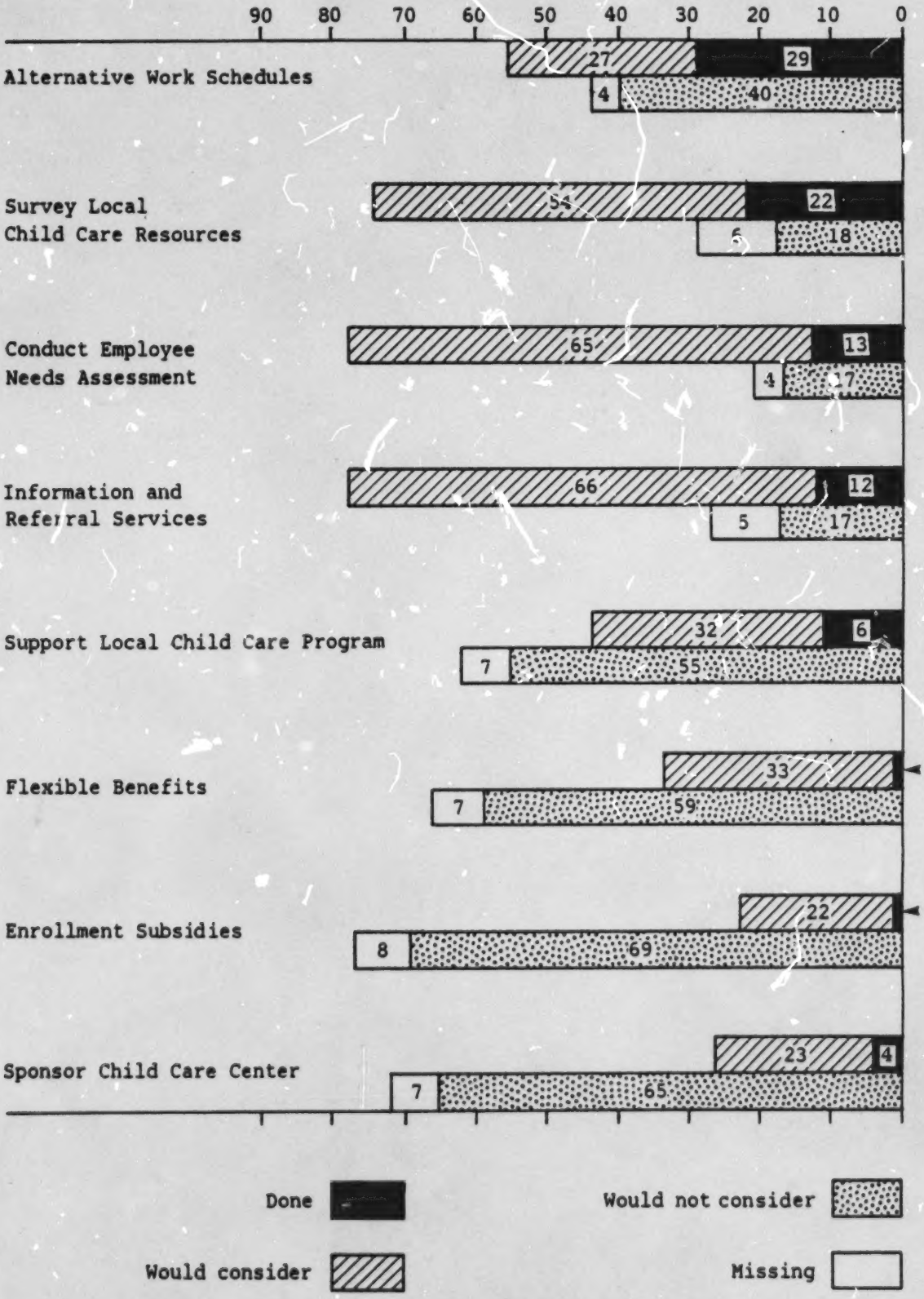
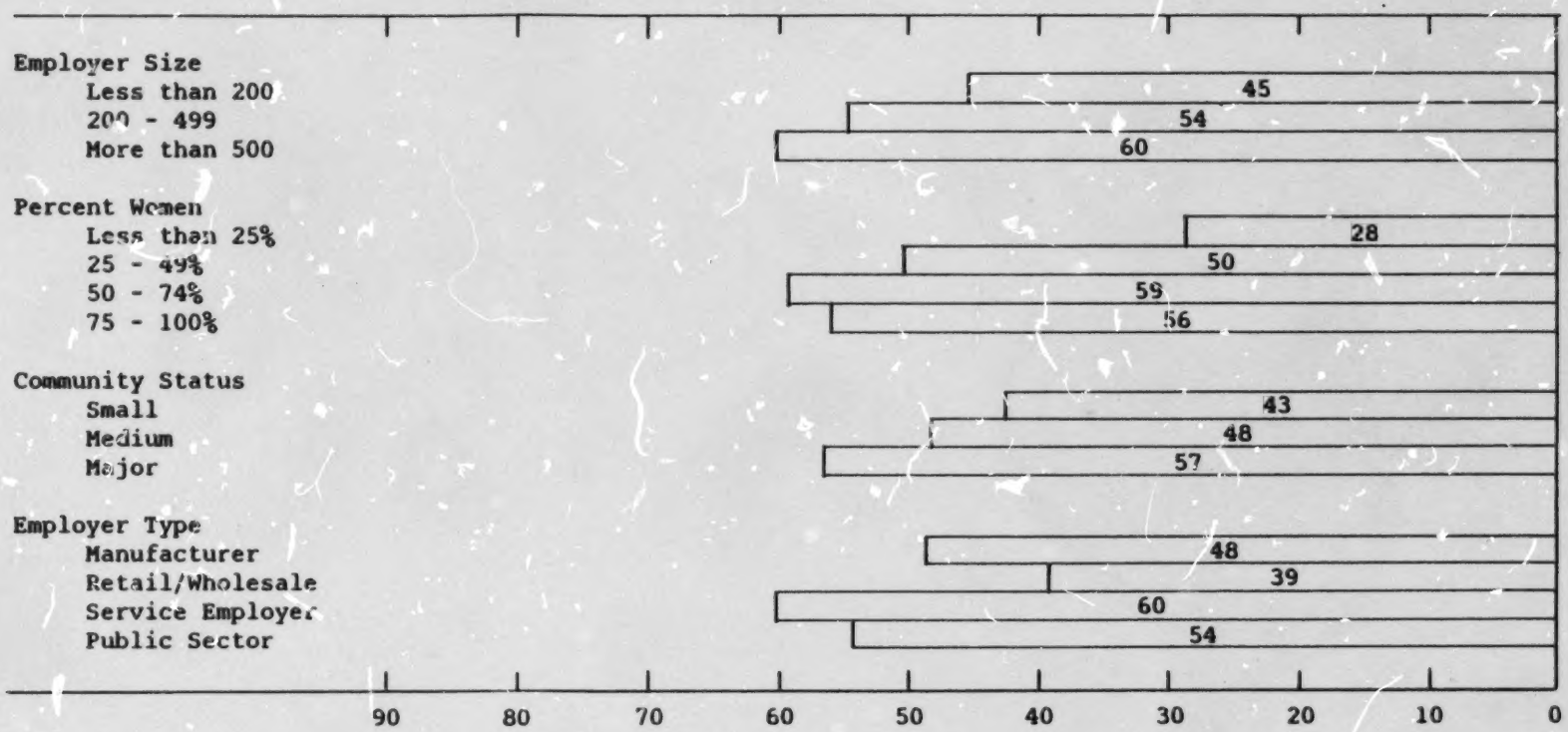


Figure 7

Ranking of Selected Employer Characteristics as Indicators of Employer Involvement Knowledge and Interest in Child Care



NOTE:

Percentages are averages of the sum of percentage responses for those employers indicating involvement in or willingness to consider I&R services, flexible benefits, enrollment subsidy, on-site centers or financial contributions plus the sum of percentage responses for those employers indicating knowledge about or interest in learning more about employer options and employer experiences in child care.

WHAT INCENTIVES ARE BEING USED TO ENCOURAGE EMPLOYER INVOLVEMENT?

This question was briefly examined in the background investigation. Government and philanthropy have provided very few significant or effective incentives specifically designed to generally encourage employer involvement in child care. The Federal Government has just begun to fund a few small research and demonstration projects. At least one major foundation is considering a strategy to encourage employer involvement nationally.

Section 188 of the Internal Revenue code was specifically designed to encourage employer investments in child care facilities for their employees by permitting among other things the rapid amortization of those investments. This incentive was largly ineffective and ended on January 1, 1982.

A number of states have tax credit programs for businesses designed to encourage investments in community service projects. These have not been particularly effective in the promotion of employer supported child care. However, some states have considered tax credit plans designed specifically to encourage employer involvement in child care for their employees. A number of these legislative efforts have failed to pass and the experience of those which have is too recent to assess. A similar federal tax credit plan, HR-5965, has been introduced in the current session of Congress. The prospects for this legislation are unknown.

The most significant federal incentives to date may prove to be the Dependent Care Assistance Program which is part of the Economic Recovery Tax Act of 1981 which became effective January 1, 1982. This permits the value of child care assistance provided by an employer under plans meeting IRS requirements to be treated as fringe benefits and as such are tax free to both the employer and employee. Prior to this statute many employers considering child care benefits were reluctant to establish them because of their uncertain tax status. Many employers otherwise willing may still be reluctant if individual states do not choose to conform to the federal rules. The IRS regulations governing this program are due to be issued in June 1982 at which point the prospects for state conformity can be better assessed. In general most states conform to IRS rules concerning the recognition of fringe benefits.

RECOMMENDATIONS

This study did not attempt to justify or find economic and social arguments for or against employer supported child care assistance. Nevertheless a number of observations in this regard can be made.

In Appalachia there does not appear to be a large unmet demand for child care services except for infant care, care in off hours, and possibly for care in more isolated areas. There is, however, a definate trend suggesting that demand will continue to rise over the next ten years at a time when direct public support for child care service is decreasing. If not borne by the government, the support for additional capacity and operations costs will have to be obtained from parents, the family, the community and in sacrifices in service quality. This added burden on the family is likely to take its toll in added stress and conflict which ultimately will affect job performance and the quality of family life. Most employers now providing child care assistance have expressed a similar recognition of the social value of their support. A similar recognition of the potential value of child care assistance was expressed in the survey of Appalachian employers.

Despite the social value of individual programs the findings from this study support the contention that employer child care assistance will offer very little for those families with the greatest need or those traditionally helped by government programs and over the short term will have little overall impact. However, the relative growth in involvement and the current interest among employers is high which suggests that the long term impact may be more significant.

Economic considerations and money seem to play an even more important role in child care than do the social factors. It is a prime consideration of parents when selecting child care arrangements. It is the main problem faced by the child care programs and it is the major obstacle to increased employer involvement.

It is difficult to determine the relative importance of the economic and social considerations for those employers currently providing child care assistance. Most employers seem to have arrived at a fairly individual set of social and economic reasons for their involvement. Most employers who now offer child care assistance are sponsoring on-site day care which usually requires the greatest degree of subsidy. The main sponsors of this type of care are the military, hospitals, and universities. Each of these types of employers have a characteristic rationale for their involvement and approach. The greatest increase in involvement among private corporations has been in the options which tend to limit responsibility and subsidy. This suggests that economic considerations will pay an increasingly significant role among those interested but not yet involved.

The findings of the employer survey showed a significant level of interest among Appalachian employers. This suggests that some Commission initiatives could be expected to result in some further development of private sector support for child care. This study provided a sound basis for a strategy. There are clear indications of the characteristics of the employers likely to be most interested. These should be targeted. It is clear that employers want more information. This should be provided. It is also clear that the greatest degree

of interest will be in those options which are simplest or most feasible, which limit the employer's responsibility and cost, and at the same time provide a material contribution to the family. These options should receive the highest priority for general promotional support. Support for more substantive options should be reserved for situations where the evidence of interest is more definate.

The kinds of traditional actions that could be taken in support of an initiative in this area could include the promotion of tax benefits, regulatory relief, demonstrations, research, loans, loan guarantees, technical assistance, materials development, materials dissemination, technical assistance and training. Recommendations for a Commission initiative were made which suggested how to best use a number or these approaches. A first or second priority was assigned to each recommendation. No attempt was made to determine the appropriate level of effort or investment for any individual recommendation or for an overall Commission initiative. The recommendations are identified but not discussed.

PRIORITY #1

- Assemble and distribute a set of materials to those Appalachian employers who expressed an interest.
- Support a centrally planned, developed and executed series of local conferences.
- Support the Commission initiatives with technical assistance.
- Develop a written model of a simplified flexible benefits program which offers child care as an optional benefit and has three basic but independent features: 1) a salary reduction option, 2) optional medical and vacation benefits, and 3) an employer paid child care benefit for targeted employees.
- Analyze forthcoming rules on the Dependent Care Assistance Program and assess the current status and prospects for state conformity.

PRIORITY #2

- Support simplified flexible benefit plan demonstrations in the Appalachian region which adopt the features of the written model.
- Develop and support a clearinghouse strategy for the Appalachian states.
- Support local demonstrations designed to organize local child care providers for the purpose of marketing services to employers.
- Support a series of conferences for local child care providers.
- Inventory and analyze state legislative efforts and state tax credit programs.

In our view the most promising and sensible option for employers is the simplified flexible benefits approach. It is the approach best suited to the

interests of Appalachian employees and employers generally. In a flexible benefits program employees are permitted to trade between established benefits which in this case would include child care assistance.

Flexible benefits are relatively new. Hewitt Associates, a leading benefits consultant, identified more than 21 plans as of January 1982 and was at that time designing programs for over 100 firms. All but one of these employers chose not to include child care as an optional benefit because of its uncertain tax status. The new tax law eliminates this uncertainly beginning in the 1982 tax year. Hewitt says that many of their clients are now planning to add child care as an optional benefit.

Many employers have perceived flexible benefits programs to be complicated and to require a rich benefit package. This is partially because they are new and because those firms which have moved forward are larger corporations who have designed comprehensive and complicated plans covering large numbers of employees. Hewitt Associates provides evidence that simplified plans involving small employers and as few at two optional benefits are possible. They are currently working on this with a number of smaller clients one of which has fewer than ten employees.

It has been suggested that flexible benefits have limited applicability to child care because they require rich benefit packages which include many nonessential benefits which can be traded for child care. Most lower and middle income employees are not likely to have many nonessential benefits that they can afford to trade. However, there are three basic sources which are best suited to this approach. The first is salary. Section 125 of the Internal Revenue Code which governs flexible plans permits salary to be exchanged for other benefits in a so called salary reduction program. When pay is exchanged for child care the employee may achieve the added benefit of income tax and FICA savings. The employer also shares in this benefit by avoiding some earnings related payments including the employer match of FICA and possibly some unemployment charges. Figure 8 summarizes the estimated 1982 federal tax and FICA savings at various earnings levels for a family of four and a family of two under specified circumstances. This analysis takes into consideration the loss of the child care credit when the salary reduction option is elected. It is clear that the savings are greater as earnings increase. At the lower end of the wage scale the credit is worth more than salary reduction. However, salary reduction is clearly better for incomes beginning in the twenty thousand dollar range and maybe lower depending upon circumstances. This analysis ignores some other relevant considerations including state tax savings, and the possible loss of some earnings related benefits such as pensions. The impact upon social security benefits which is established using a 35 year earnings base should be immaterial. Hewitt Associates estimates the breakeven point to be as low as $11,000 in adjusted gross income when taking Minnesota state tax into consideration. If salary is reduced by more than the $2,400 ceiling of work related child care expenses used to figure the credit the tax savings will be even greater than that shown here. Assuming the employee's earnings are below the FICA ceiling of $32,400 the employer will save at least $160 in FICA payments on each $2,400 of reduced salary. In our view salary reduction provides an excellent opportunity for employers to offer a tax savings to many of its employees at minimal cost.

In addition to salary there are two other principal benefits which Hewitt claims many employees will be willing to trade for child care. They are medical care and vacation. Many two wage earning families with children have employer supported individual health insurance coverage. Some may be willing to opt out of the "extra" coverage in exchange for child care assistance at a value equal to or somewhat less than the employer's enrollment costs. In addition some may be willing to select low option health coverage in exchange for some child care assistance. Vacation is another material source which some employees may be willing to exchange part of for child care. It should be emphasized that the employer can choose to cover some of its administrative costs by providing child care assistance at a value somewhat less than the cost of the original benefit being traded.

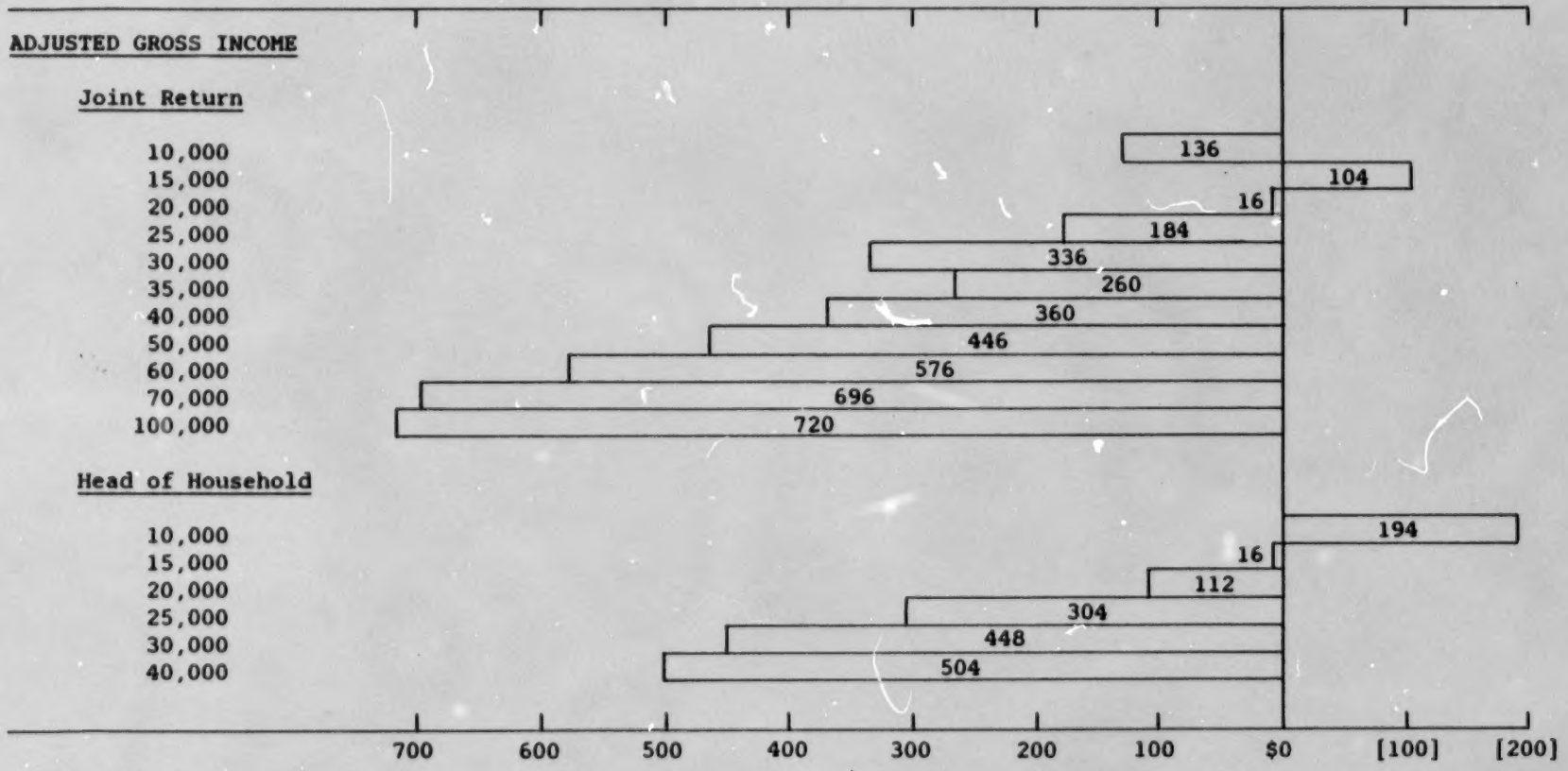
There are other advantages to the flexible benefits approach in addition to its feasibility and low cost requirements. The most significant of these is that it solves the problem of equity. Unions and management resistance to child care assistance has in part been based upon the fact that only those employees with eligible children reveive the benefit. The flexible benefits plan does not have this problem. It also has the advantage of limiting the liability and responsibility of the employer in that the employees can be responsible for acquiring the services of their choice. The fact that employees would be free to choose their own program means that established providers are more likely to benefit from the arrangement. The flexible benefits approach also provides a full variety of opportunities for the employer to expand its control over and contribution to its child care benefits. It is an approach which can accommodate other methods of support and a complete range of services.

In our view the most appropriate step an employer could take in an expantion of its role would be the provision of direct child care assistance on a limited cost and income related basis using a vouchering arrangement. The cost of the benefit to the employer would be controllable and its application would be directed to those most in need. Other groups besides the needy could be targeted as long as the plan does not discriminate in favor of owners or highly compensated employees. Ideally the vouchers would be unrestricted or cover a full range of child care services.

It was recommended that the Commission support the development of a written model and demonstrations of simplified flexible benefits plans which would include the three features discussed as independent or excludable components and which would identify the basic plan characteristics and other development and implementation considerations.

Figure 8

Individual Federal Tax and FICA Savings From a Salary Reduction Program for $2,400 in Reduced Salary for One Qualifying Child for a Family of Four Filing Jointly and for a Family of Two Filing as Head of Household in 1982



NOTES:

- 1982 Tax Rate Tables
- 1982 Child Care Tax Credit
- Joint Return: Family of four with one dependent child qualifying for credit
- Head of Household: Family of two with one dependent child qualifying for credit
- Child Care Expenses of $2,400 for one qualifying child
- Salary Reduction of $2,400 elected
- 1982 FICA: 6.7% of gross up to $32,400
- State Tax Savings excluded